ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Bar Harbor Bankshares

Person to be contacted regarding this report:	Joseph Murphy	RSSD: (For Bank Holding Companies)	1115385
CPP Funds Received:	$18,751,000	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP Funds Repaid to Date:	$18,751,000	FDIC Certificate Number: (For Depository Institutions)	11971
Date Funded (first funding):	1/16/2009	City:	Bar Harbor
Date Repaid[1]:	2/24/2010	State:	Maine

[1]If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

☒	Increase lending or reduce lending less than otherwise would have occurred.	The additional CPP capital raised our our lending limit for individual customers. The additional borrowing capacity allowed the bank to fund commercial ventures to selective large customers which may not have otherwise been funded.

☒	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	One area of increased lending was to municipalities. During 2009, our loans to municipalities increased from $5.6MM to $14.2MM at year end. Greater levels of new credit were also extended to small businesses, particularly the coastal fishing industry, which needs additional flexibility.
☒	Increase securities purchased (ABS, MBS, etc.).	Our institution was able to purchase significant amounts of MBS from both U.S. Government Agencies and GSE's. The bank also purchased notable amounts of Bank-Qualified Municipal Securities.
☐	Make other investments	
☒	Increase reserves for non-performing assets	During 2009, the bank increased it's Allowance for Loan Losses by $2.4MM, or 43.5%.

☒	Reduce borrowings	Our institution was able to proportionally decrease the aggregate level of our borrowings relative to earning asset growth, partially as a result of the receipt of CPP capital.
☐	Increase charge-offs	
☐	Purchase another financial institution or purchase assets from another financial institution	
☐	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP funds?

We felt no need to restrain lending to preserve capital ratios during the recent financial market deterioration. Therefore, we were able to provide maintenance and support to our local small business communities.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

Our institution was able to grow earning assets by significant amounts in 2009. Total loans ended the year at $669.5 million, representing an increase of $35.9 million, or 5.7%, compared with December 31, 2008. Loan growth was led by commercial loans and tax-exempt loans to local municipalities, which were up $47.5 million and $8.8 million, or 14.8% and 163.8%, compared with December 31, 2008, respectively. Consumer loans, which principally consist of residential real estate mortgage loans, declined $20.1 million or 6.6% compared with December 31, 2008, largely reflecting principal pay-downs from the Bank's $225.8 million residential mortgage loan portfolio. While the bank's residential mortgage loan portfolio declined in 2009, residential mortgage loan activity increased significantly, principally reflecting declines in residential mortgage loan rates, borrower refinancing activity, more affordable home prices and tax incentive programs. Because of the interest rate considerations associated with holding low coupon mortgage loans, $29.8 million of low fixed rate residential mortgages originated in 2009 were sold in the secondary market with customer servicing retained by the bank and as a result were not reflected in outstanding loan balances at year end.

Total securities ended the year at $347.0 million, representing an increase of $56.5 million, or 19.5%, compared with December 31, 2008. Securities purchased during 2009 consisted of mortgage-backed securities issued by U.S. Government agencies and sponsored enterprises, debt obligations of U.S. Government-sponsored enterprises, and obligations of state and political subdivisions thereof.

Our institution was also able to lower the aggregate amount of total borrowings partially as a result of our participation in the CPP program. Total borrowings ended the year at $311.6 million, representing a decline of $12.3 million, or 3.8%, compared with December 31, 2008. In December 2009, our institution completed an offering of common stock to the public, the cash proceeds from which were immediately utilized to pay down short-term borrowings.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

The infusion of CPP capital allowed our institution to have a greater degree of patience in handling loans in various phases of workout and foreclosure, although such opportunities were limited.